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MARKETING AGENCIES BETWEEN MANUFACTURER AND JOBBER

SUMMARY

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I. Introductory

In his *Some Problems in Market Distribution*, Mr. A. W. Shaw describes as the "orthodox type in distribution," the marketing of goods by manufacturers through selling agents to jobbers, and thence to retailers, and cites the textile trades as an example.[1] He further explains that the tendency is for the manufacturer to sell direct to jobbers, thus doing away with the services of the commission house. It is true that there is this tendency, and yet the use of an intermediary middleman between producer and wholesaler is much more common than is usually thought and occurs in a number of important trades. Furthermore, this middleman appears to be holding his own to a surprising extent, and there is every indication that he will continue to be an important factor in the marketing organization for an indefinite future period.

This class of middlemen comprises commission houses (sometimes known as selling houses), manufacturers'

[1] P. 72. Cf. also Shaw's An Approach to Business Problems, pp. 168 ff.

agents, brokers, and purchasing agents. Commission houses are common in the cotton, woolen, and silk goods trades, and are found to a certain extent in the hosiery and knit goods and "notions" trades. Manufacturers' agents are common in the grocery and hardware trades, and brokers are very important in the grocery trade. An interesting form of the purchasing agent is found in the hardware trade. Similar middlemen appear to a certain extent in other trades, but the reason for their existence and their methods of doing business may be understood by studying them in connection with the three trades enumerated above, viz., textiles, hardware, and groceries.

The reason why manufacturers have middlemen market their goods at all is that they, the middlemen, can perform the marketing functions more cheaply than can the manufacturers themselves. Perhaps the principal reason why the middleman can do this more cheaply is that he combines the outputs of a number of manufacturers, thereby using one selling organization to sell a larger number of different goods, or a larger volume of similar goods, than would be the case if each manufacturer had his own sales organization. The selling expense per unit of goods is lower when one salesman can sell a line of goods rather than a single product. It follows that the large manufacturer, especially if he makes a line of different articles, can often afford his own sales organization — sometimes taking over even the jobber's functions, and selling direct to retailers. In a few cases, manufacturers even sell to consumers through their own retail stores.

It also follows that the small manufacturer, especially if he makes a single product, would often be put to prohibitive expense if he had to maintain a sales department to reach the thousands of retailers all over the

country — and for the same reason he often finds it advantageous to use a middleman even to reach the few hundreds of jobbers. Other considerations, such as need of financial assistance and remoteness from trade centers, also enter as factors which often make it desirable for manufacturers to employ such an intermediary in order to reach jobbers.

The services performed by commission houses, manufacturers' agents, and brokers can best be understood in a general way by reference to the marketing functions, which are as follows: assembling, or the seeking out of commodities from various sources, making business connections, etc.; storing, or the holding of goods at convenient points; financing, or the giving of credit, making loans and advances, etc.; assumption of risks from price fluctuation, deterioration, style changes, etc.; rearrangement, or the sorting, grading, and packing function; selling (which includes advertising); and transportation (the most important feature of which is the delivery service). It appears that intermediaries between manufacturers and jobbers perform but few of these functions. They rarely store commodities for their principals; they assume but little risk, because they do not take title to the goods; they have practically no sorting and grading because they sell in large quantities and rarely handle the goods at all; and they do none of the transporting. This leaves the actual selling of the goods, which is their most important function; financing, which is important in the textile trades but not in the hardware and grocery trades; and assembling which they perform by representing manufacturers who are often located in different parts of the country.

The purchasing agent is fairly distinct from the other three forms of middleman described here because he represents buyers rather than sellers, but it is rather

difficult to draw clearly the lines of demarcation between commission houses, manufacturers' agents, and brokers, especially as they merge into each other in certain cases.

The distinguishing features of commission houses, which are found primarily in the textile trades, appear to be as follows: They generally market the whole output of each mill that they represent or the whole output of at least one of the mill's products, such as its cotton yarn, or its woven fabrics; their financing function is much more important than in the case of brokers and manufacturers' agents; they handle goods of the same kind for different mills; they usually have more power in determining the price at which goods shall be sold than do the other two kinds of middlemen; they handle goods which are not usually branded and advertised; they receive their compensation in the form of a percentage commission on sales; they often perform the additional service (which may be considered a part of the selling function) of furnishing designs for the mills, and telling them what fabrics and designs to run through the looms.

The distinguishing features of the manufacturers' agent, who is found in the hardware and grocery trades, appear to be as follows: They more commonly sell for their clients in a restricted, tho fairly extensive, territory, so that a manufacturer may have two or more agents in different sections of the country — tho there are exceptions to this, especially in the hardware trade; their financing function is unimportant as compared with commission houses, inasmuch as they rarely make advances to or otherwise finance manufacturers; they handle a variety of goods of the same general class, such as various kinds of hardware, but they sell each particular article for only one manufacturer; sometimes, especially in the grocery trade, they handle branded and

advertised goods; similar to commission merchants, they usually receive their compensation in the form of a percentage commission, but sometimes they receive salaries or lump-sum-annual payments, and not infrequently, flat rates per package of goods sold; they usually have to follow the prices set by the mills rather than enjoy the privilege of setting prices themselves.

The distinguishing features of brokers, at least as they appear in the grocery trade, are as follows: Their field of activity is more limited than in the case of commission houses and manufacturers' agents, since they frequently sell to jobbers only in the city where they are located; the "pure" broker does not represent any particular manufacturer, but places his orders from purchasers with any manufacturer whom he may select at the time (there is a tendency for so-called brokers to represent definite manufacturers in restricted markets, as will be pointed out below); they usually have no financing function; they sell the same kind of goods for different manufacturers; they handle principally unadvertised goods; they usually receive flat rates per package or per carload, rather than a percentage compensation; they have very little leeway in determining prices, usually having to get them "confirmed" by manufacturers.

The foregoing features of these different kinds of middlemen will be brought out more clearly in the detailed descriptions that follow. In many cases, trade terminology and changing methods of doing business render it difficult to distinguish between commission houses and manufacturers' agents on the one hand, and between manufacturers' agents and brokers on the other. The distinguishing features as described above apply to the pure types of these three kinds of middleman.

II. Commission Houses in the Textile Trades

The commission houses in the cotton and woolen goods trades will not be discussed in detail in this place, because they have been admirably described by others.[1] Brief descriptions drawn largely from these two sources will be given, however, for purposes of comparison.

The commission house or selling house in the cotton and woolen goods trades developed at an early date, largely because of financial relations with the mills. Many of the first commission houses had previously been engaged in the import trade and had amassed capital and established credit relations, which placed them in an advantageous position to finance early American mills. The principal functions of these selling houses today are financing the mills and selling their goods. In financing they employ various methods, such as direct loans to mills, endorsing the mill's paper, guaranteeing accounts, buying the mill's stocks and bonds, and "cashing sales." To "cash sales" means that the commission house turns over to the mill the value of goods sold, even tho the buyers of the goods may not pay until a month or more later. In the silk trade, this is often done at the end of each month, the commission house deducting interest until the date when accounts are payable. Textiles are sold on fairly long terms, so that by having their sales "cashed," the mills are receiving their money long before payment is actually made by the purchasers of the goods.

The commission house in the textile trade is usually the sole agent for each mill whose goods it handles, tho sometimes a mill employs two selling houses, one for its

[1] See Copeland, Cotton Manufacturing Industry of the United States, chap. 11, and Cherington, Wool Industry of the United States, chap. 7.

yarn or tops, and one for its fabrics. A selling house usually represents from five to fifteen mills — sometimes a larger number. The same house often sells both wool and cotton fabrics. Most of these commission houses have their main offices in New York, but many of them have branches in other large cities. They have regular sales organizations and send out traveling salesmen. They sell principally to jobbers and to the "cutting up" trade (clothing manufacturers), but also to large retailers (department stores and mail order houses) to a certain extent.

In addition to the actual sale of the goods, it is common for these houses to furnish designs for the mills, and to instruct the mills what to run on their looms. Since they are closely in touch with style changes and trade conditions, they are of considerable service to the mills in this respect. The commission varies for different goods, and for different mills. In the cotton goods trade it is about 1½ to 2 per cent for northern mills, and from 3½ to 4 per cent for southern mills. It is higher for the latter because of the greater financial assistance required, and the greater risk involved. Many of the northern mills have become so strongly intrenched financially that they no longer need the financial assistance of the selling houses. In the woolen industry, the commissions run from 2 per cent on staples to as high as 5 per cent on "fancies."

There is a decided tendency for the larger mills to do away with commission houses, establish their own selling organizations, and thereby sell "direct," (which means direct to jobbers and the cutting-up trade). In some cases, commission houses have become so closely connected with mills in a financial way, that the selling house has merely been transformed into the sales department of the manufacturing company. The Amoskeag

Manufacturing Company, one of the largest manufacturers of cottons and worsteds in the country, furnishes an interesting example of this; until a few years ago it sold through a selling house in New York, but the two concerns became so closely connected that the selling house finally gave up its old name, and became a part of the Amoskeag Company (the sales department) without change of personnel. In the woolen and worsted goods trade, direct sale became much more important when the American Woolen Company was formed, thus combining in one sales organization the outputs of some forty mills that had previously sold through commission houses. To be sure, the American Woolen Company of Massachusetts (the manufacturing company) sells through the American Woolen Company of New York (the selling company) on a commission basis, but to all intents and purposes the latter is the sales department of the former, and it is correct to say that the American Woolen Company sells "direct."

In the silk goods trade, the commission house occupies much the same position as in the cotton and woolen goods trades, except that the financing function is perhaps a little more difficult to perform, the selling house is more apt to carry a stock of finished goods, and the commissions charged are higher. That the financing function is more difficult to perform is due partially to the fact that there are a great many small silk mills of doubtful financial strength. Raw silk is sold to mills on six months' time, thus enabling manufacturers to make up goods, and get money advances from their selling houses even before they have paid for their raw material. This situation makes it relatively easy for men with little capital to start silk mills, and militates against financial stability in the trade at large. Furthermore, silk fabrics are more in the nature of "fancies" than

cottons and woolens, and their market values are not so definite; hence they do not constitute such good security for the basis of loans.

The commission house is also used in the hosiery and knit goods trade. To quote from a recent Government bulletin on the knit underwear industry: [1]

> A commission house will take all, or the greater part of the output of a plant and will receive a certain commission, usually from $7\frac{1}{2}$ to 10 per cent. This commission covers discount, freight, cartage, storage, and insurance, the manufacturer having no further responsibility in regard to the finished goods. The commission house sells to jobbers or retailers and stands all discounts, etc., and generally guarantees the account.

A similar bulletin on the hosiery industry shows that out of seventy-three establishments studied, only three sold through commission houses.[2]

Not only is the commission house employed by manufacturers of textiles, but also by manufacturers of many other articles that reach consumers through dry goods stores. These articles fall principally in the class known as "notions," but comprise some that would be classed as toilet articles. They comprise such things as pins, hair pins, buttons, hose supporters, hooks and eyes, hair brushes, combs, shaving brushes, etc. Many of these articles are made by small manufacturers who cannot market them efficiently individually. The commission house sells these goods principally to notions jobbers and dry goods jobbers. The tendency is for this class of manufacturers to go direct when they become large enough, and when they no longer need the financial assistance of the commission house.

There are only four or five commission houses of this kind, all located in New York, but they do a consider-

[1] Bureau of Foreign and Domestic Commerce, Miscellaneous Series, No. 32, p. 135.

[2] Ibid., No. 31, p. 165.

able business, and are an important factor in this trade. The writer has obtained information from only one, but its methods are probably fairly typical. It represents about forty different manufacturers, but the bulk of its business is done with half of these. This particular house also handles knit goods (hosiery, sweaters, and underwear), but this combination is unusual, and is found in only one other house. It handles about one hundred different items, and carries the same line for competing factories except when the factory gives exclusive sale to the commission house, in which case it handles the line for only the one manufacturer. It finances manufacturers either by making advances on unsold goods (up to 75 per cent of value in some cases), or by cashing sales. Goods in this trade are sold on ninety days' time (2 per cent ten days, net thirty, with sixty days dating), so that by having his sales cashed, the manufacturer gets his money within thirty days, whereas he would otherwise have to wait from seventy to ninety days. The commissions on notions run from 7½ to 10 per cent.

III. Manufacturers' Agents and Purchasing Agents in the Hardware Trade

The reason for the existence of intermediaries between hardware manufacturers and jobbers is found in the fact that many hardware manufacturers confine their attention to single articles, or single lines of articles. For example, one manufactures nothing but scissors, another saws, another wrenches, and so on. Furthermore, many such manufacturers have relatively small outputs, and a good many of these are located at a distance from market centers, so that they find it difficult to keep in touch with trade conditions.

A large manufacturer, especially if he makes a wide variety of products, generally finds it economical to maintain a sales organization to reach jobbers, without employing an intermediary, and a few even sell a large part of their outputs direct to the retail trade. One of the largest hardware manufacturers in the United States reaches the larger retailers with his own salesmen, but leaves the smaller ones to jobbers, and in order to make his line more complete and reduce selling expense the salesmen of this company carry a few goods made by other manufacturers.

That such direct sale to retailers is out of the question for the small manufacturer making a single product is obvious. That he might sell direct to the few hundred jobbers is possible; but as a matter of fact, a large number have found it more economical to use a manufacturers' agent. The agent becomes the manufacturers' sales department; he combines the outputs of several manufacturers — from ten to thirty in number — and his salesmen are taking orders for a large variety of hardware goods, rather than a single product, thereby reducing the selling expense per unit of goods sold, and making it possible for goods to reach jobbers at a lower price than if each manufacturer had his own sales organization.

The manufacturers' agent does not handle the same kind of product for two different manufacturers; i. e., he sells saws for one, scissors for another, and so on, and agrees by contract with each manufacturer not to handle similar goods made by a competitor. The manufacturer, on the other hand, agrees to give the agent exclusive sale of his products, sometimes for the whole country, and sometimes for a certain section of the country. In a few cases, the manufacturer sells direct to jobbers in territory near his plant, and uses agents in more remote

parts of the country. Several of these manufacturers' agents are located in New York, but they are found in many other large cities. Tho they sell mainly to hardware jobbers and machinery supply houses, they not infrequently sell to the largest retailers, especially department stores.

These houses usually receive their compensation in the form of a commission on sales, varying from 5 to 10 per cent on different articles. One of the largest houses handles some of its accounts on a salary basis; i. e., it is paid a lump sum per year by the factory for disposing of its product, and prefers this method on the ground that the manufacturer is more likely to give his consent to a large order at a special price, than if he had to figure in the commission he would have to pay on such a sale. This house thinks that the best method is a salary on sales up to a certain volume, and a commission on all sales above that amount.

Manufacturers' agents in the hardware trade do practically no financing, tho in a few cases they have financial interest in factories that they represent. Tho they carry a few goods to supply nearby territory, they have but little of the storage function to perform, as goods are usually shipped direct from manufacturer to purchaser. Their main function is selling. They often publish catalogs of the goods they handle, and they send out salesmen just as the manufacturer would have to do if he had his own sales department. There appears to be no pronounced tendency in the hardware trade for the manufacturers' agent to become a less important factor.

As an indication of their present importance in this trade, information was procured from ninety-three hardware jobbers in the United States concerning the extent to which they buy from such intermediaries. Out of these ninety-three, only five concerns reported that they

do not buy through manufacturers' agents at all, leaving eighty-eight, or 94.7 per cent of the total, that do purchase through them. Of these eighty-eight, sixty-seven reported that they use them only a little, whereas the remaining twenty-one state that they buy 25 per cent or more. Some of them report that they buy as much as 40 or 50 per cent in this way. As might be expected, it appears that houses in the South and West purchase through these intermediaries more commonly than do those in the East. Inasmuch as it is possible that many of the wholesalers who report that they buy "very little" or only to a "limited extent" in this way, purchase more than their answers indicate, it is clear that a substantial proportion of all hardware — possibly from 15 to 20 per cent — passes through the hands of these intermediaries on its way from manufacturer to wholesaler.

Another interesting feature of the hardware trade is the purchasing agent, who represents the jobber. The assembling function, which is an important one for all jobbers, is simplified for them to a certain extent by the sending out of manufacturers' and agents' salesmen; but there are many products, such as wire, and other articles in which metals predominate, which they can buy to best advantage only if they follow market conditions in the principal trade centers (especially New York) with great care. The average jobber is not in a position to do this efficiently and economically. Furthermore, there are a great many small jobbers, each of whom can use but a relatively small quantity of certain products, and who would be able to buy at lower prices if they could pool their orders and thus get quantity prices.

These are the two principal factors that account for the existence of the purchasing agent in the hardware

trade, viz., need of exact and continuous information of trade conditions and price fluctuations, and the ability to buy at lower prices by placing combined orders. Whereas the manufacturers' agent previously described, acts as a specialized selling organization for manufacturers, the purchasing agent acts as a specialized buying organization for jobbers.

There are only four or five important purchasing agents of this nature in the country, but some of these do an extensive business. The largest one, located in New York, represents three hundred hardware jobbers scattered all over the United States and Canada. Tho western, southern, and Canadian jobbers probably need this service the most, yet eastern jobbers, even some located in New York City, are clients of this company. The company works entirely on a salary basis, i. e., a lump-sum-per-year payment. This basis is necessary, because many clients employ the purchasing company principally, or even solely, for the sake of procuring trade information, whereas others buy large quantities of goods through it.

This purchasing company keeps twelve specialists at work studying the market continuously. A loose-leaf catalog of price quotations is published and distributed to clients, and "change" sheets are sent out in large numbers every day. By finding out in advance the needs of its clients, it is able to order enormous quantities of products from manufacturers at one time, occasionally taking the whole season's output of a manufacturer. All concessions received from manufacturers are passed on to clients. The service also includes the picking up and consolidating of small lots of goods, which the distant jobber cannot buy advantageously or have shipped economically without such service. This company deals not only in standard hardware, but in electrical, auto-

mobile, plumbing, machinery, and other supply lines. The annual purchases made through the company amount to many millions of dollars.

According to information received from ninety-six hardware jobbers in the United States, eighty report that they use purchasing agents, leaving sixteen that do not use them at all. Of the eighty concerns, fifteen report that they use them only for the market news service described above, rather than for actual buying. Eastern concerns appear to use these intermediaries as much as western and southern concerns, but more largely for information purposes only. The fact that 83.3 per cent of all jobbers reporting use purchasing agents at all, however, indicates that these middlemen must perform a substantial and valuable service.

Purchasing agents of a similar nature are found in other trades, notably in the dry goods trade, where they are known as "resident buyers," a term more frequently applied to buying agents of department stores in New York City. Department stores do not usually buy through jobbers, and therefore have to go to the expense of performing their own assembling function. This is done in four principal ways in New York City, the principal market in which they buy: first, by sending buyers to New York (without any permanent representative in that market); second, by maintaining their own permanent buying offices in New York (an expensive method that can be indulged in by only a few of the largest department stores); third, through coöperative buying syndicates, whereby a number of department stores club together and divide up the expense of maintaining a permanent buying organization in New York; and fourth, by employing an independent resident buyer, who represents a number of stores, provides office space for their buyers when in town, provides sample

rooms where goods may be displayed, executes fill-in orders, consolidates, packs, and ships orders to clients, keeps clients posted on market conditions, and who picks up job lots which department stores use for their special mark-down sales. Inasmuch as dry goods jobbers have to buy in New York in much the same way that department stores do, they also frequently use resident buyers.

IV. Manufacturers' Agents in the Grocery Trade

Tho the lines of demarcation between manufacturers' agents and brokers in the grocery trade are rather indistinct in some cases, the former are employed mainly to market "branded specialties," and the latter to market unbranded or staple commodities. The manufacturers' agent usually sells over a much wider territory than the broker, and on the whole he is very similar to the selling agents in the hardware trade, and exists for much the same reasons, i. e., the combining of the outputs of different manufacturers with consequent reduction of selling costs.

The fact that branded staples are commonly sold this way has an important bearing on the matter; many of the well known grocery products were started in a small way, and when national distribution was first sought, the manufacturers themselves could not judge as to the probable success of their advertising campaigns. They also frequently started with but a single product, and they had no business connections. Consequently, they called on manufacturers' agents, who already had sales organizations in operation, and who were in the best situation for reaching the trade. On the other hand, as some of these grocery specialties have

become widely used, and hence move in huge quantities, manufacturers have in many cases found that they could afford sales organizations of their own, and have therefore done away with agents. One of the largest manufacturers' agents in the country reports that, all through his history, he has been gradually taking on accounts for newly advertised specialties, only to have his commissions gradually reduced and sometimes to lose the accounts altogether as distribution has become successful and voluminous. This particular agent has also taken on other commodities—especially canned goods—on a brokerage basis, in order to increase and stabilize his business. Another has obtained control of manufacturing plants, so as not to lose important accounts. In other words, manufacturers' agents are of special importance during the early years of building up a distribution for advertised grocery products, and are likely to give way to manufacturers' own sales departments when the distribution has become successful. This constitutes a distinct tendency in the grocery trade.

The statements brought out above are admirably illustrated by the history of the methods employed by the breakfast cereal companies. The Kellogg Toasted Corn Flake Company, for example, at first used manufacturers' agents in different parts of the country in order to reach jobbers. Gradually, as output increased, this company began to develop its own sales organization, and did away with its last agent only a few years ago. In order to do this, it has had to develop a territorial sales organization, with each district in charge of a territorial sales agent (taking the place of the former manufacturers' agent). A stock of goods is kept on hand in each district to care for rush orders. The fact that the Kellogg Company manufactures more than one product, and that it probably figures that it gets better

attention to its products through its own salesmen, have undoubtedly been factors in adopting this policy.

Most of the other well known breakfast foods, such as "Shredded Wheat" and "Quaker Oats," are also sold direct to the jobbing trade, but it is said that the Cream of Wheat Company still uses the manufacturers' agent, at least in some parts of the country. When this company began putting up carefully selected and sterilized "farina" or "purified middlings," about the year 1900, and advertising it under the name of "Cream of Wheat," it naturally could not afford a sales organization of its own, especially as the success of the venture must have been highly problematical; and it was only natural that it should have employed agents. A company of this sort naturally balances the cost of a sales organization of its own against the cost of selling through agents, and it changes to direct sale only when it is sure that it can do so more cheaply and more effectively than by employing agents. If it can induce agents to accept smaller commissions, as the volume of business increases, this may at least postpone the development of direct selling.

Manufacturers' agents in the grocery trade handle a large variety of products for manufacturers, including soap, cornstarch, stove polish, shoe polish, condensed milk, malted milk, soft drinks, confectionery, cooking oil, chloride of lime, etc. They have practically no financing function to perform; they carry only small stocks from which emergency orders may be filled. Tho they generally send their salesmen to jobbers only, at least one company was found (in Boston) that sends its salesmen to retailers to take orders, which are booked through jobbers. In other words, this agent performs the service of sending out "specialty men," which is often done by manufacturers of grocery specialties themselves.

Each manufacturers' agent has a specific territory to cover: Boston houses usually cover New England, and New York houses often have territory east of Buffalo and Pittsburgh, and so on. As in the hardware trade, an agent handles each product for only one manufacturer, and has exclusive sale within his territory. The commissions vary all the way from 2 or 3 per cent to 10 per cent, varying for different products, and with the extent to which a substantial distribution has been built up. The reduction of commissions allowed to manufacturers' agents is a good illustration of the power of advertising to reduce selling costs.

V. Brokers in the Grocery Trade

Brokers are of considerable importance in the grocery trade; wholesale grocers, even the largest, buy a very large proportion of their supplies through this class of dealers. Commodities commonly handled by them are sugar, rice, canned goods, flour, dried fruit, coffee, tea, salt, salt fish, syrup, molasses, and other products of minor importance. Brokers handling these products are found in all the large cities of the country. In many cases a single broker handles a number of different products, but in the largest cities there is a high degree of specialization — such as sugar brokers, coffee brokers, canned-goods brokers, etc.

The *true* broker does not make exclusive arrangements with individual manufacturers; in other words, he is a free lance, placing orders that he receives from jobbers with any manufacturer that can offer the best price. As a matter of fact, most of the so-called brokers are tied to certain manufacturers for whom they are sole agents in the cities or territories where they — the brokers — are located. In this respect, such brokers are

very similar to manufacturers' agents, and hence it is often difficult to distinguish between the two. The pure type of broker exists to a certain extent, however, as in the sugar trade in New York, and in the form of "merchandise brokers," who are found in all large markets. This latter class does a very miscellaneous sort of business. They sell for distant shippers who send only occasional carloads of products to market; they bring buyer and seller together in the same market, as for example when a wholesale grocer has a surplus amount of sugar or flour which he wishes to dispose of.

In general, brokers exist in the grocery trade for very much the same reasons that the other intermediaries are found between producer and jobber. They represent a number of sellers, and thereby reduce selling costs. The production of many of the commodities that they handle is seasonal, which is another reason why manufacturers cannot afford to keep their own representatives in all large markets of the country. Furthermore, the manufacturers in many of the trades where brokers are important, are small, isolated, and scattered throughout the country. Most brokers sell within a limited territory; they have practically no financing functions; they represent the sellers in most cases, rather than the buyers; they are commonly paid a flat rate per package or per car for their services, and the brokerage usually amounts to from less than 1 to 2 per cent of the selling price; they handle principally unadvertised commodities; and they have to get their prices confirmed by their principals.

A broker in the grocery trade is usually a single individual who does his own work, except for some clerical assistance in his one-room or two-room office, and does not have a force of traveling salesmen as do many of the manufacturers' agents described above. His expenses

are low, consisting of office rent, telegraph and telephone, clerical help, sometimes a salesman or two and oftentimes expressage on samples — for sale is largely by sample. He has to be an expert on the commodities that he handles. He goes in person to the wholesale dealers to obtain orders, and is of considerable value to these wholesale buyers by keeping them posted on market conditions, and by saving them the trouble and expense of sending out buyers to scour the country for goods which they want.

There appear to be two leading problems connected with the activities of brokers, viz., the splitting of commissions, and the buying of goods on their own account for speculative purposes. Competition is keen, and in order to land large orders they frequently cut their brokerage fees below the customary rates. In spite of some attempts to do so, they have not been able to govern this matter through associative action. The buying of goods for speculative purposes is not looked on with favor for the simple reason that a broker is not likely to give his best services if he has goods of his own to dispose of in competition with those of his principal. On account of the prevalence of these two practices, some brokers are found in each market who have unsavory reputations in the trade. Absolute honesty and disinterested service are as essential in the broker as in any other form of middleman.

Turning to the milling and flour trade, we find three principal methods used by millers in marketing their flour: first, direct to retail stores through branch offices, a method employed by the large manufacturers of nationally advertised flour which is destined for "family trade"; second, direct to jobbers (wholesale grocers, flour and feed jobbers, and specialized flour jobbers)

and large bakers; and third through flour brokers to jobbers and bakers. A flour mill sometimes employs all three methods at the same time, selling branded flour to retail grocers in thickly populated sections of the country, branded flour and good quality unbranded flour to jobbers, and "clear" or lower quality flour through brokers. Advertised brands are not sold through brokers.

Large mills seldom sell their best quality flour through brokers; but small mills, especially those in distant localities, find them practically indispensable for efficient marketing. The output of a small mill varies from year to year; during one year it may be able to market its product in nearby cities, and during the next year it may have to seek wider markets. The quality of flour made by small mills varies from season to season, which results in having to seek different classes of buyers and even different markets from year to year. Different types of flour are made in different parts of the country. Each mill has but one kind of flour to sell, whereas each flour jobber or wholesale grocer needs perhaps five or six different types and grades.

The foregoing facts indicate why it does not pay the small or average sized miller to maintain his own permanent sales force in order to reach the principal markets. The broker not only reduces selling expense by combining the outputs of several mills (usually from five to twenty), but he represents mills which are located in different parts of the country, so that he not only always has flour to sell, but he handles the different types. Formerly, many of these brokers were commission men, and small mills shipped their flour to them on consignment without knowing what price they were to receive. Then they began sending samples from which the commission men would take orders, getting prices

confirmed by shipper before sales were consummated. Thus the commission man became a broker.

Flour brokers are expert judges of flour quality. They work over and carefully inspect the samples sent by their principals, and form opinions of the baking quality, etc. Through their knowledge of qualities their services are of great value to the flour buyers of wholesale grocery houses, and they keep these buyers posted on market conditions from day to day. The flour buyer of one of the largest wholesale grocers in Chicago says that he buys about 25 per cent of his flour through brokers; that he can't hope to keep in touch with all the mills from whom he buys flour; and that even if he is trying to buy direct it frequently happens that he can't get the flour that he wants from some particular mill at the time he wants it, and that therefore he has to resort to the brokers to find what he wants. The broker is therefore a great help to the wholesale grocer in his assembling function.

Tho flour brokers sometimes buy flour for speculative purposes; those with the best reputation do not. Even these, however, occasionally take title to a certain amount of flour, first for the purpose of keeping a small stock on hand to fill rush orders, and second, occasionally to help out a small mill that can't afford to wait for its money until its flour is sold. Flour is sold by brokers in car-lots, and the mill both ships and bills direct to the purchaser that the broker has found. Usually the flour broker performs no financing function, but occasionally honors drafts of small mills, rather than keep them waiting for their money. The customary brokerage fee is ten cents a barrel, but this is frequently cut on large orders. Each miller usually employs but one broker in a city, tho some mills sell through any broker who finds a satisfactory sale. The best brokers

apparently prefer to be exclusive representatives of their principals in the cities where they are located.

With the growth of large flour mills, and the shutting down of many small ones, the flour broker is probably losing his importance slightly as time goes on. The development of large bakeries, which buy flour in huge quantities, also contributes to this tendency, inasmuch as they prefer to go direct to mills whenever possible. A few flour brokers are turning into specialized flour jobbers, who sell to large retailers and to wholesale grocers and bakers. In other words, instead of handling on a brokerage basis, they are taking title to the goods, tying up their capital, and assuming the merchandising risk of price fluctuation — functions not ordinarily performed by brokers.

The marketing of canned goods illustrates about as well as any trade the usefulness of the broker as a marketing intermediary between manufacturer and jobber. The canning of fresh vegetables and fruits is done principally by a large number of small packers or canneries, scattered all over the country from Maine to California, each depending on a local supply of raw material; the output of each packer is relatively small; the business is intensely seasonal; and both quantity and quality of pack vary from season to season. Furthermore, on account of the variations in crop conditions in different parts of the country during a single season, the market area for a single packer varies accordingly; some years he can sell his output in nearby markets, and other years he can do better by going to more distant markets. It is not difficult to understand that it would be too expensive for each packer to maintain a sales organization which could market its output efficiently to the hundreds of grocery jobbers all over

the country, and that he finds the broker a serviceable agent.

In the largest markets brokers are found who handle nothing but canned goods, including canned fish, but in many cases they also handle dried fruits, and to a certain extent a variety of other products. The canned goods broker usually represents a fairly large number of packers, fifty to sixty being a common number, at least in Chicago, and some of them representing over one hundred.[1] The brokers in this trade do some financing, by making advances to packers, tho this practice is apparently not so common as is usually thought. Most packers give exclusive sale to a single broker in each city or territory, but this is not a fixed rule. The usual brokerage fees average about $2\frac{1}{2}$ per cent on canned fruits and vegetables and 5 per cent on canned salmon. Brokers having the best reputation do not buy goods on their own account, except in some cases to have a small supply on hand to fill rush orders.

Canned goods brokers sell almost entirely to wholesale grocers, who on the whole seem to prefer to buy from them, rather than to go direct to packers. When a wholesale grocer in Chicago, for example, is in the market for peas, he can call up from fifteen to twenty brokers who can immediately show him a great quantity of samples, and quote prices (subject to confirmation). This is much cheaper and more expeditious than sending buyers out into the country. There is a slight tendency for very large packers of canned goods to establish their own sales organizations and thus reach the trade direct, such as Burnham and Morrill, Heinz, Beechnut, and the meat packers, etc., but it will be noticed that these companies do not sell perishable fruits and vegetables.

[1] The data on canned goods brokers are drawn largely from a paper by Mr. D. D. Sells written under the supervision of the author in Chicago during the summer of 1916.

It is more difficult to explain the need of brokers in the refined sugar trade than in the other trades described, inasmuch as the manufacturing business is concentrated into a few large companies, each of which sells in large volume. And yet, outside of Boston and New England, the refiners sell to wholesale grocers and large manufacturers who use sugar, almost entirely through brokers. In many parts of the country, however, these brokers have become so closely allied to the refiners, that they practically constitute their sales organizations, paid on a brokerage rather than on a salary basis. In spite of the fact that there is but a small number of refining companies, one of which is much larger than the others, the fact that brokers combine the output of several plants, goes far to explain their existence, especially as many sugar brokers outside of the very largest markets combine other products such as canned goods and dried fruits with their sugar business.

In New York City, the sugar brokers are of the pure type, i. e., they are not tied in any way to individual refiners. In the trade, New York is called an "open market"; the broker gets an order for a carload of sugar from a wholesale grocer, and he places the order with whichever refiner makes the best price. In contradistinction to this, Chicago is a "closed market"; in other words, each refiner sells through a single broker — giving that broker exclusive territorial rights. Oftentimes such a broker sells no other sugar and no other product than the output of the refiner with which he is tied, and it is under this arrangement that the broker becomes to all intents and purposes the sales representative of the refiner, rather than a broker in the true sense of the term, or than even a manufacturer's agent, who ordinarily handles articles for a number of different manufacturers. In Chicago, for example, the American

Sugar Refining Company has an office of its own which has general supervision of sales in that territory, but all sales are actually made through a " broker " who has his office adjacent to that of the American Company.

On the other hand, some of the refiners have exclusive brokers of this sort in interior cities, but they are allowed to handle — not any other sugar — but other articles such as canned goods. One refiner explained that in that way he was able to command all the time he needed of a $6000 man for $3000 — an admirable illustration of the economies effected by combining the sale of articles made by different manufacturers through one middleman. The brokerage fee in this trade is ten cents per barrel, which amounts to only about one-twentieth of a cent a pound, or considerably less than one per cent of the value.

This trade has many other interesting features. Sugar is marketed from refiner to consumer on perhaps narrower margins than any other commodity, and yet it passes through the hands of a large number of successive middlemen, indicating that functional specialization is not inimical to low marketing cost, and may even be largely responsible for it. In fact, two of the refiners (the Federal and the National) have no sales departments of their own, even for reaching brokers. The Federal, for example, employs a commission house (engaged largely in foreign trade) to attend to its selling, and pays this house on a commission basis. In such a case there are really two middlemen between refiner and wholesale grocer. Furthermore, raw sugar is also handled by a special class of brokers, who sell for the importers to the refiners. The principal reason for this is that the importer does not have a steady supply; he may have five thousand tons today, and no more for a week. The broker, on the other hand, representing a

number of importers, always has sugar to sell. One other feature of the sugar trade is the fact that in many of the largest cities there have developed specialized sugar jobbers, who buy through the brokers, and deal in nothing but sugar.

Green coffee is another product that is sold principally through brokers — from the importer through the broker to the coffee roaster (usually the wholesale grocer). Here again, the principal economy is due to the fact that the broker sells for a number of different houses. One or two of the largest coffee importing houses have their own sales organizations with salaried representatives in all large cities, who sell direct to roasters. One large New York house has its own representatives in five of the largest trade centers in the country (including New York) and uses brokers in other cities. It is said that another large New York importer tried to establish his own selling organization in certain large cities, but found it too expensive, and went back to the brokers.

Usually a coffee broker has exclusive sale for his principals in the market where he is located. Tho the importer is his principal, he may be regarded from another point of view as the buying agent of the wholesale grocer, who depends on him for information from day to day, about trade conditions. Prices have to be confirmed by the principal. The customary brokerage fee is fifteen cents a bag of one hundred and thirty-two pounds, which amounts to about one-eighth of a cent a pound, or about 1 per cent of the value. Sometimes the coffee broker also represents a foreign exporting house direct, rather than a domestic importer. Roasted coffee is not sold through brokers.

Tho there are other examples of marketing intermediaries between manufacturer and jobber than those described above, enough has been said to indicate the reasons for the existence of such agencies, and to show that they perform very important services for manufacturers. That they are decreasing in importance in some trades is true, especially in the textile trades where mills are becoming less and less dependent on commission houses for financial support, and in the case of branded and advertised articles, where the manufacturers' agent is losing ground. But even in these trades, marketing intermediaries are bound to continue in existence indefinitely, especially to serve the smaller manufacturers. The middlemen described in this paper admirably illustrate the value of functional specialization in marketing.

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